



News Release

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IRS to Waive Estimated Tax Penalty for U.S. Citizens or Residents Living and Working Abroad

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WASHINGTON — The Internal Revenue Service and U.S. Treasury today announced that they have released guidance on the estimated tax penalty for citizens or residents of the United States living and working abroad.

The Tax Increase Prevention and Reconciliation Act of 2005, Pub. L. No. 109-222, 120 Stat. 345 (TIPRA), enacted in May 2006, changed the maximum amount of foreign earned income and housing costs that may be excluded from gross income under section 911 of the Internal Revenue Code.

TIPRA increased the maximum amount of foreign earned income that may be excluded from gross income to \$82,400. The law also limited the amount of housing costs that may be excluded or deducted under section 911. TIPRA further provides that the tax applicable to income not covered by the foreign income exclusion will now be calculated as though the exclusion had not been elected. These changes are effective for taxable years beginning after December 31, 2005.

Because these changes are retroactive to the beginning of the taxable year, persons relying on the law as it existed prior to the enactment of TIPRA may have underpaid their estimated tax liabilities for 2006 and may be liable for an addition to tax under section 6654(a). The IRS will waive additions to tax under section 6654(a) to the extent that the underpayment is attributable to the changes enacted under TIPRA.

This waiver is only available to qualified individuals who file a Form 2555, Foreign Earned Income, or Form 2555-EZ, Foreign Earned Income Exclusion, with their timely filed Form 1040, U.S. Individual Income Tax Return, or Form 1040X, Amended U.S. Individual Income Tax Return.

About 300,000 individual taxpayers filed Form 2555 and Form 2555-EZ for tax year 2004, the latest year for which data is available.